

DELEGATION MISSION TO NEW ZEALAND,
AUSTRALIA, HONG KONG, AND JAPAN

A REPORT
TO THE
UNITED STATES SENATE
BY
SENATOR THAD COCHRAN



U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1982

92-314 O

5920-4

LETTER OF SUBMITTAL

UNITED STATES SENATE,
Washington, D.C., March 26, 1982.

Hon. HOWARD BAKER,
U.S. Senate,
Washington, D.C.

Hon. ROBERT C. BYRD,
U.S. Senate,
Washington, D.C.

DEAR SENATORS BAKER AND BYRD: It is with great pleasure that I submit this report on the trip to New Zealand, Australia, Hong Kong and Japan that I had the opportunity to lead with the participation of Senators Arlen Specter and Steven Symms. Our trip reemphasized the importance the U.S. places on our friendship with these countries and Hong Kong, and the appreciation we have for the role they play in both defense and trade.

At the Majority Leader's request, we undertook a fact-finding mission to these nations from January 3-19, 1982. We met with officials at the highest levels of government as well as in-country representatives of American industry to gain insights into our mutual defense capabilities and needs, and ways to improve trade relationships.

We returned with a much better appreciation for the complex issues of the region and also with the comfort that our relations with them are good. We feel that our visit will help to enhance U.S. efforts to expand trade and strengthen our ability to defend the Pacific region.

We take the opportunity in this report to discuss some of the highlights of this most beneficial trip and request that it be printed.

Sincerely,

THAD COCHRAN,
U.S. Senator.

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REPORT OF THE SENATE DELEGATION MISSION TO NEW ZEALAND, AUSTRALIA, HONG KONG AND JAPAN, JANUARY 3 TO 19, 1982

PURPOSE

Our delegation welcomed the majority leader's request that we undertake a fact-finding mission during January to New Zealand, Australia, Hong Kong and Japan.

The purpose of the trip was to examine:

- the state of our bilateral relations with each of the nations visited;

- the status of agricultural trade, barriers to the free flow of farm goods, the performance of the Foreign Agricultural Service offices in expanding markets for U.S. agricultural commodities, and adequacy of appropriations to carry out the mandates of the Congress and the policies of the U.S. Government.

- the threat to Australia, New Zealand, and Japan posed by the Soviet presence in Asia and the Pacific, how the ANZUS alliance and the U.S. Japan Mutual Defense Treaty contribute to each participating nation's security, and the responsibilities of each nation in improving our mutual security;

- the status of U.S. trade relations with each of the nations visited with particular attention to investment and trade involving the states represented by the members of the delegation;

We take the opportunity in this report to discuss some of the highlights of our trip.

CINCPAC BRIEFING

During a stopover in Hawaii on January 4, the delegation received a classified briefing on the Pacific Area Command at the headquarters of the Commander-in-Chief Pacific (CINCPAC).

The Pacific Area Command is geographically the largest of the U.S. unified military commands. Its commander, Admiral Robert Long, the senior U.S. military officer in the Pacific, is responsible for virtually all military operations in an area which encompasses more than 100 million square miles, or roughly 50 percent of the earth's surface. The Pacific Command stretches from the west coast of the Americas to the east coast of Africa, from the Arctic to Antarctica, encompassing both the Pacific and Indian Oceans.

The briefing session was conducted by Lt. General R. W. Sennewald, Deputy Commander-in-Chief Pacific. Topics discussed included the Soviet military build-up in the region, U.S. military capabilities, and Japan's role in contributing to peace and stability in the region. Other issues discussed included tension on the Korean peninsula and the nature of the situation between the

People's Republic of China and Taiwan with a focus on the military needs of Taiwan.

The delegation expressed interest in morale among the servicemen in the Pacific Command region. The reduction from two to 1½ carriers in the Arabian Sea has helped morale as has the military pay raise, according to the briefing officer. But the long-term separations required by 8-9 month cruises still take their toll, and there remains concern about the need to maintain a sufficient number of able petty officers.

The delegation found the briefing most useful and would recommend that other congressional delegations traveling to or from the Pacific area take advantage of the opportunity to be briefed by the top U.S. military personnel in the region.

NEW ZEALAND

During the delegation's visit to New Zealand, discussions centered on trade and defense issues. In addition, while in Christchurch, the delegation received a briefing on Operation Deep Freeze.

New Zealand has been a long-time friend of the United States and bilateral relations are excellent. The United States and New Zealand enjoy a good trade relationship and maintain important security ties with a view toward promoting peace and stability both in the South Pacific region and throughout the world.

New Zealand's economy is primarily based on agriculture and agriculture trade. Exports account for over 26 percent of its gross national product and agricultural exports account for over 70 percent of New Zealand exports. The United States is New Zealand's largest market and the fourth largest importer of New Zealand goods.

A briefing provided by U.S. Ambassador H. Monroe Browne and his staff provided an overview of the importance of New Zealand to the region and the major trade concerns between our two countries.

AGRICULTURE AND TRADE

During discussions with the Right Honourable Duncan MacIntyre, Deputy Prime Minister and Minister of Agriculture, the delegation pointed out that American farmers are in financial difficulty because of low prices and high production cost. Furthermore, the delegation said that several legislative proposals this year were directly in response to the problems faced by U.S. farmers.

Proposals to restrict casein imports to 50 percent of the previous 5-year average and to restrict meat imports would have been particularly damaging to New Zealand exports to the United States. New Zealand is the United States' largest supplier of casein and over 70 percent of New Zealand beef exports come to the United States.

New Zealand officials were assured that the Reagan Administration is dedicated to more open trade. They were pleased that the casein and meat import restriction proposals currently pending in the Congress had not been enacted into law. Furthermore, it was pointed out that in late December the National Wool Growers As-

sociation withdrew its petition for a countervailing duty against lamb imported from New Zealand.

These actions illustrate the importance of maintaining and improving good trade relations with New Zealand and the U.S. desire for freer trade.

The butter sale to New Zealand was reviewed and for the most part is working out satisfactorily for both countries. However, New Zealand officials expressed concerns about the continued surplus of dairy products in the United States. The delegation pointed out that actions were taken in the Farm Bill this year to bring the supply of milk into line with demand.

Minister MacIntyre was complimentary of efforts being made by the United States to control inflation and felt that New Zealand stood to benefit from a strong U.S. economy. The delegation told him that, until the President's program was fully implemented and the U.S. returned to a sound economic base, there will continue to be pressure on Congress and Administration officials to take actions. Often such pressure will be in the form of requests to restrict imports into the United States.

The delegation pointed out that New Zealand could help the United States by easing restrictions created by the requirement for import licensing on about 20 percent of New Zealand imports. New Zealand, in effect, restricts trade by limiting licenses.

DEFENSE

New Zealand government officials consistently stressed the importance of the ANZUS treaty, stating that it is the cornerstone of New Zealand's security. ANZUS is acknowledged as such by both the National Party government currently in power and the opposition Labor Party. There are some differences between the two parties on such issues as port calls by U.S. nuclear-powered ships, with the National Party favoring routine calls and the Labor Party opposing them, but the overall importance and commitment to the ANZUS treaty appears to transcend party politics.

New Zealand, which spends about 2 percent of its GNP on defense, has a small, but well-trained and well-led military. Several New Zealand officials made the point that New Zealand has no major armaments industry and must procure its military equipment with foreign exchange earned through the export of agricultural goods. Some New Zealand officials lamented the U.S. decision to terminate the Export-Import Bank's ability to lend funds to support foreign purchases of weapons. In the past, New Zealand's military purchases have been British-oriented. If concessional financing were available, more purchases might be made from the United States.

New Zealand participates in the Five Power Defense Arrangement (FPDA), in which it joins with Singapore, Malaysia, Australia, and the United Kingdom to provide joint training facilities and exchange of personnel. Under the FPDA, New Zealand maintains an Army battalion in Singapore.

FOREIGN POLICY

Prime Minister Muldoon has elected to send New Zealand personnel to the Sinai Multilateral Force and Observers (MFO) in a joint helicopter detachment with the Australians, if Britain and other European governments also contribute forces. Officials reported that there was public uncertainty over the decision.

Ninety-five percent of New Zealand's oil comes from the Middle East. In addition, Iran and Iraq have become two of New Zealand's largest and fastest-growing markets for lamb. In the past year, lamb exports to these two countries equalled what New Zealand has been sending to the United Kingdom, traditionally New Zealand's biggest lamb market. Most New Zealanders feel strongly that it is essential to protect Middle East markets and were concerned that participation in the Sinai observer force might adversely affect New Zealand trade.

Trade considerations also enter into New Zealand's foreign policy in relation to the USSR. Politically, New Zealanders appear to have the same anti-communist views as Americans. The Soviet ambassador to New Zealand was expelled in January of 1980 after the Government learned that he was passing money to the Moscow-oriented officials of a socialist party in New Zealand. No ambassador has yet been reinstated. The USSR, however, is one of New Zealand's largest and fastest growing markets, fifth in 1980 and sixth in 1981. New Zealand's exports to the USSR in 1981 amounted to \$222 million and imports from the USSR were \$11.2 million.

When delegation members asked about the Polish situation, New Zealanders expressed strong support for U.S. actions taken so far. The New Zealand government called in the Polish Chargé d'Affaires to protest developments and is continuing a full-scale review of the situation. New Zealand will cooperate with the United States as far as possible in the area of sanctions while remaining sensitive to its own trade interests, according to New Zealand officials.

On the issue of China and Taiwan, New Zealand officials expressed the hope that reunification can be resolved peacefully and seemed to have confidence that the United States would conduct its policy to enhance the chances of a peaceful settlement of the Taiwan issue.

New Zealand officials expressed support for U.S. efforts to urge the Japanese to improve its defense capabilities. Some expressed concern that memories of Japanese occupation have not completely disappeared in Southeast Asia, however, and that Japanese efforts should be concentrated in North Asia. New Zealanders generally agreed with the delegation's view that Japan must make stronger efforts to open its markets and recycle its huge trade surpluses.

New Zealand makes an important contribution to the development and stability of the new island nations in the Pacific. New Zealand also maintains a close and friendly relationship with the five ASEAN nations. There is a commitment on the part of the New Zealand government to continue to play a constructive and important role in both these areas.

OPERATION DEEP FREEZE

On January 9, the delegation arrived in Christchurch, New Zealand, and proceeded directly from the airport to the Operation Deep Freeze headquarters, part of a large staging facility which sends cargo and about 1,200 Americans each year to U.S. research stations in Antarctica.

The National Science Foundation manages the U.S. Antarctic Program with a budget of about \$70 million a year. Well over half that amount is spent on logistics provided by the U.S. Navy and a civilian contractor.

Antarctica has one-tenth of the land area in the world. It is larger than the United States and Mexico combined. Ninety-eight percent of its area is covered by ice that has an average thickness of more than a mile. Antarctica is the world's coldest continent. The world's lowest natural temperature on record, minus 126.9 degrees F was recorded there, and winds at the coast sometimes exceed 200 miles per hour.

Antarctica is a desert, with annual precipitation less than one inch per year at the South Pole. Yet Antarctica's ice, the result of accumulation of many thousands of years, holds 90 percent of the world's fresh water.

The National Science Foundation solicits grant proposals from the U.S. scientific community and administers the grants once recipients are chosen. Projects range widely in the fields of biology, ocean sciences, geology, and atmospheric sciences. In the 1981-82 year, approximately 270 researchers will conduct 75 projects.

The United States operates four year-round stations. A number of other nations also operate stations, including the Soviet Union which maintains seven stations. In the first half of the 20th Century, overlapping territorial claims were made by seven nations. The United States and the USSR have made no claims and do not recognize the claims of others. In 1961, the thirty-year Antarctic Treaty was ratified by 12 nations, including the United States, USSR and the seven claimants. Since then, thirteen other nations have acceded to the treaty. The treaty limits the use of the continent to peaceful purposes, suspends the claims, promotes international cooperation in scientific investigation, prohibits nuclear explosions and dumping of nuclear waste, and permits parties to inspect one another's facilities at will. Continuation of the treaty beyond its 1991 expiration date is still uncertain.

Delegation members expressed interest in promoting projects which might yield information on minerals and other resources that could be exploited in the Antarctic. Members also urged that the U.S. press for continued sharing of results from other nations' scientific investigations as called for by the treaty.

AUSTRALIA

During the visit to Australia the delegation found that United States-Australian relations are excellent. The delegation conveyed in a number of meetings the importance the United States places on continued good relations with Australia.

The Australian economy is based on a system of free enterprise with some controls in the fields of banking, credit, agriculture, minerals and energy.

Trade accounts for 15 percent of Australia's national product, with agriculture and other raw materials accounting for about 80 percent of Australia's exports.

Australia is a major agricultural trade competitor of the United States in the areas of wheat and meat. But at the same time, Australian imports from the United States account for 23 percent of the total—double the level of two decades ago.

During visits with government and industry officials, a number of trade, defense, and foreign policy issues were emphasized.

AGRICULTURE AND TRADE

Australia is a major supplier as well as major competitor of the United States in the agricultural trade sector. U.S. imports of beef and veal account for about half of Australian exports of these items. Australia competes with the United States in wheat and dried, fresh and canned fruits.

During a meeting Senator Cochran had with officials from the Australian Livestock and Meat Corporation, he expressed concern over the inspection of meat for export. Australian officials reviewed the changes made in their inspection procedures following the identification of horse and kangaroo meat in a shipment to the United States last year. They assured him that the changes would prevent such occurrences in the future.

The sugar loan program included in the Farm Bill is an issue in Australia. Australians feel that it will hurt their sugar sales to the United States. Delegation members pointed out that the loans were well below estimated cost of production and that the industry considered the level too low.

In a meeting with Minister of Primary Industries Peter Nixon, the Minister expressed the mutual dislike for the use of subsidies designed by the European Community to expand exports.

The delegation expressed the desire that the United States and Australia strengthen their joint efforts and support one another in opposing discriminatory EC policies.

Mr. Nixon applauded the position taken by the United States in encouraging the European Community to reduce trade restrictions and subsidies. They were particularly pleased with the actions taken by Secretary Haig, Secretary Block and Ambassador Brock during their meetings with European officials where they emphasized the concerns the U.S. has with trade restrictions in the European Community.

The delegation met with members of the American Chamber of Commerce in Australia to get a better understanding of the concerns of American businessmen as they participate in the Australian and other Asian markets. Several items of concern were brought to the delegation's attention including (1) Export-Import Bank funding, (2) the Foreign Corrupt Practices Act, (3) the Export Trading Company Act, (4) reopening of the American Consulate in Brisbane, (5) extraterritorial reach of U.S. laws, and (6) a U.S.-Australia Tax Treaty.

Chamber members expressed concern that U.S. foreign sales are being lost because of more favorable financing offered by competitor nations. They felt that unless a global agreement could be reached on uniform credit rates that the Export-Import Bank should be adequately funded and offer competitive rates and terms of financing.

The representatives from the American Chamber felt that the Foreign Corrupt Practices Act causes many companies to miss business opportunities because of fear of undue publicity associated with business practices which may be acceptable and routine in host countries. This was only one example of several problems they have with extraterritorial reach of U.S. laws. On a positive note, however, the Chamber members said that the Export Trading Company Act of 1981 would make a significant contribution in assisting smaller companies move into export markets.

U.S. Treasury officials and Australian officials signed a new draft tax treaty in October, 1980. After public hearings were held, U.S. Treasury officials wrote the Australian Taxation Office in January, 1981 requesting an amendment. It was brought to the delegation's attention by the United States Chamber of Commerce in Australia that Australian officials have not responded. The Chamber members felt it was important to get this new treaty back on track.

DEFENSE

Under the ANZUS treaty, the United States has a commitment to act to meet the common danger in accordance with its constitutional processes if Australia comes under armed attack. Australian military forces work closely with United States forces over a broad range of military activities.

An Australian proposal for the use of Darwin by U.S. B-52's patrolling the Indian Ocean was finalized last year; and Australian frigates have been rotated into the Western Indian Ocean as part of an allied effort to ensure freedom of transit in the Persian Gulf and Arabian Sea. Australia and the United States share a common vital interest in cooperating to safeguard the vital shipping lanes in the Pacific and Indian Oceans. The main security role of Australia, however, continues to be in Southeast Asia and the Pacific. Maintenance of Air Force units at Butterworth in Malaysia has contributed to the confidence of the host country and its ASEAN partners. Australia also continues to provide extensive and vitally needed support for Papua New Guinea, the most populous country of the new Southwest Pacific nations. In order to modernize its armed forces, acquire new equipment and strengthen its defense capabilities, Australia will increase its real expenditure on defense by 7 percent during each of the next three years.

During the delegation's discussions with Australian officials on defense issues, one official raised a concern about a provision in the Department of Defense Appropriation Bill which deletes specialty metals from a "buy American" exemption. The provision, according to Australian analysts, effectively prohibits procurement of foreign specialty metals to be used to produce U.S. military equipment. Australia is attempting to strengthen its defense industry so

that it can be a secondary supplier of components to the United States. The provision could affect such items as turbine blades for jet engines or propellers for FFG's. Delegation members agreed to take a look into the situation.

FOREIGN POLICY

One Australian official termed Australian participation in the Sinai Multinational Force and Observers (MFO) the most contentious foreign policy issue Australia has had to face in the past six months. Before Anwar Sadat's death and at the time the Australian government agreed to participate along with the Europeans, the Australian public opposed participation by well over 70 per cent. Now that figure is probably about 50:50, according to Australian officials.

According to delegation discussions with government officials, Australia intends to stick by the strong measures it took against the Soviet Union as a result of the Soviet invasion and occupation of Afghanistan. These sanctions include suspension of:

- scientific, academic, and cultural exchanges;
- official talks at the Foreign Ministry level;
- fisheries and maritime cooperation;
- Soviet cruise ship operations;
- consideration of a Soviet request for Aeroflot access to Australia;
- the mixed Commission on Trade;
- discussions on building a new Soviet Embassy in Canberra;
- and
- government export marketing and promotion assistance for Australian exports to the USSR.

As a result of the situation in Poland, the Australians are examining whether or not to roll over a \$40 million trade credit for Poland and deferring consideration of a new trade credit agreement with Poland. Australian officials reported to the delegation that sanctions already taken against the Soviets after Afghanistan cover the full range of Australian-USSR relations and there may not be much more Australia can do in regard to sanctions against the Soviet Union as a result of Poland.

In a meeting with the Parliamentary Joint Committee on Foreign Affairs and Defense, the delegation discussed with the Members a report issued by the Joint Committee entitled "The Nature and Probability of Threats to Australia's Security." The report examined four possible types of threats:

- (1) A global conflict;
- (2) invasion of Australia;
- (3) intermediate level threats; and
- (4) low-level contingencies.

Its conclusions were:

A global conflict.—The increasing tension between the superpowers is worrisome to Australia, as are the many serious regional conflicts where the United States and the USSR have interests. There is a danger regional conflicts could draw in the major powers. Support for the idea of a possible "limited nuclear war" increases this danger. Currently the outbreak of nuclear war should be regarded as an unlikely eventuality. The presence of joint facilities in Australia contributes to the system of deterrence and therefore con-

tributes to the prevention of nuclear war. However, in the event of a nuclear war, the joint facilities at Pine Gap, Nurrungar and North West Cape are "likely to be on the Soviet target list," although their relative priority remains unknown. The Committee compared the advantages and disadvantages of the joint facilities and the benefits Australia derives from the ANZUS Alliance. It noted that ANZUS deters potentially hostile actions against Australia that would be beyond Australia's capabilities to handle.

Invasion of Australia.—Because of its location, size and defense capabilities, Australia is a "difficult invasion target." The United States is the only country capable of mounting an invasion and it lacks any motive to do so, the report stated. At present the USSR lacks the military capability to project its military forces overseas to invade Australia successfully. There is little evidence that the Soviets are building up their overseas projection capability in a way that would permit them to invade Australia. The Committee stresses, however, that Australia must continue to maintain a technological edge over regional powers to deter hostile action. It also needs to maintain a large and competent intelligence effort.

Intermediate level threat.—Australia does not have serious disputes with any foreign power and there is little likelihood of armed hostilities with another state in the absence of the breakdown of the existing world order.

Low-level contingencies.—These are seen as the most likely threat to Australian interests. There is uncertainty concerning the extent and timing of allied support in possible regional contingencies. The Australian defense force must be capable of undertaking foreseeable tasks, such as peace-time surveillance, supporting law enforcement agencies against terrorism, and contributing to UN and other peace-keeping forces.

The report apparently stimulated controversy in Australia because it implied that U.S.-Australian joint facilities increased the likelihood that Australia would be a target in a nuclear war. But the parliamentarians pointed out that the report did conclude that the marginal risks incurred as a result of the joint facilities were outweighed by the deterrence provided by the facilities and overall Australian participation in ANZUS against any outbreak of hostilities.

The Reagan administration's decision not to sell advance fighter aircraft to Taiwan was cabled to the delegation in Sydney on January 12. In discussions on the issue, the importance of a good U.S.-PRC relationship to stability in the region was noted by Australian officials. One or two commented that the U.S. should avoid policies which might provide an excuse to act for those in Beijing who favor rapprochement with the USSR. The administration's decision to continue co-producing the F-5E and supplying Taiwan with the spare parts necessary to maintain its current equipment rather than sell Taiwan an advanced fighter was not criticized by those Australians with whom the delegation spoke about the issue.

The delegation had an opportunity to talk with a number of members of the opposition Labor Party. The Labor Party supports continued participation in the ANZUS treaty but stresses different goals from those of the incumbent government. For example, Labor is less enthusiastic about Australian activities supporting the

United States in the Indian Ocean. Labor opposes Australian participation in the Sinai Multilateral Force and Observers. Labor would like to see attempts made to counter Soviet influence in Vietnam and would not be adverse to sending economic aid to Vietnam to lessen its dependency on Soviet aid. Labor does not support a military build-up by Japan and would like to see the United States move slowly, if at all, in selling arms to the People's Republic of China.

In summary, the delegation's talks with Australians in and out of government were lengthy and diverse. Differences of opinion without doubt occur, as they do in any democracy, and are voiced as strongly in Australia as they are in the United States. But, in the end, Americans and Australians are bound together by ties of a common historical background, a common language, and a genuine respect for democracy.

HONG KONG

Hong Kong is one of the most densely populated areas in the world. Its foreign relations are the responsibility of the British Government, but considerable independence has been given in the area of commercial trade.

Hong Kong should not be overlooked as a major market for U.S. products.

AGRICULTURE AND TRADE

Although there are only 6 million people in Hong Kong it is the 18th largest market for U.S. agricultural commodities. On a per capita basis it is our second largest market, with cotton being the most important U.S. export in terms of value. It is the leading U.S. export market for shell eggs, oranges, apples, table grapes, melons, animal feeds, celery and lettuce.

Hong Kong is an important center for market development throughout the region.

The delegation met with FAS officials and representatives from three cooperators including: (1) The U.S. Wheat Associates, (2) the Poultry and Egg Institute of America, and (3) the Cotton Council International. A total of eight Foreign Agriculture Service (FAS) cooperators have submitted plans for market development activities. The delegation asked the group to review their programs and the adequacy of support.

Such activities as in-store displays, product sampling, distribution of promotional materials, assistance on noodle, cookie and pasta production, consulting on baking techniques, and participation in trade shows sponsored by the Foreign Agriculture Service have resulted in continuous increases in the market share of many U.S. products.

Concern was expressed about the impact that high interest rates, higher electricity costs and depressed demand is having on short term cotton imports into Hong Kong. Furthermore, higher labor cost and rising land prices are expected to result in textile production gradually shifting out of Hong Kong.

The delegation was encouraged to hear that China has been upgrading and increasing spindles. This is expected to increase

China's import needs and should more than offset any decline in Hong Kong.¹

Leading restaurants and hotels in Hong Kong prefer U.S. foods such as beef, chicken, turkey, eggs and a wide assortment of fruits and vegetables. With hotel rooms expected to increase by 20 percent over the next few years, the United States can expect to continue to enjoy expanded exports.

The delegation asked the cooperators about the adequacy of their support and particularly about other opportunities for expanded U.S. sales.

Concern was expressed by the cooperators about proposed budget cuts and the impact these could have on U.S. market development efforts. The delegation assured them that proposed budget cuts would be carefully reviewed and that having a first-hand look at overseas programs would help delegation members during consideration of the fiscal year 1983 budget.

It was generally felt by the delegation that the money spent for market development yielded positive returns and should be strongly supported.

AMERICAN CHAMBER OF COMMERCE BREAKFAST

The American Chamber in Hong Kong reiterated many of the views the delegation had heard from the American Chamber in Sydney (see pp. 6-7). The American Chamber officials urged greater support for Export-Import Bank financing so that American firms can compete with firms from other nations. They also stressed the importance of revision of the Foreign Corrupt Practices Act which has passed the Senate and is awaiting action in the House of Representatives.

The businessmen urged U.S. Government action which they believe would increase the U.S. share of the fabric market in Hong Kong. The U.S. share is now only about 2-3 percent, whereas the Japanese have garnered about 45 percent of the market. The U.S. share could be significantly improved, according to Chamber members, if uncut U.S. fabrics could be exported to Hong Kong, made into final products, and reshipped to the U.S. to be imported duty free. This would require a change in U.S. tariffs currently applied to these imports.

The Chamber members also called for U.S. assistance in working with foreign governments to establish effective patent procedures to protect U.S. industry's goods and processes. Apparently, counterfeit goods can be a problem especially in Asia, and American businesses do not feel adequately protected.

Commissioner Peter Tsao along with Michael Cartland, Assistant Commissioner of Trade, received Senator Spector on January 16. Senator Spector requested the meeting to discuss general U.S./ Hong Kong trade with special emphasis on textiles, mushrooms, and leather.

¹ To date, the major wheat promotion efforts in China include bringing on line a high technology bakery. This facility will cost \$1.5 million with the cost split equally between the United States and China.

Currently, there are plans to enter into a joint venture with China in constructing a flour mill facility for educational and promotional purposes.

Commissioner Tsao explained that Hong Kong is a large importer and exporter of textiles. Hong Kong exports about 40 percent of its garments to the United States and about 35 percent to the European Community. Hong Kong imports 1.5 billion square yards of fabric every year, with only 25 percent of Hong Kong's fabric needs supplied locally. According to Commissioner Tsao, the fabric market here is dominated by Taiwan and Japan. Hong Kong is encouraging American fabric makers to look at the Hong Kong market and Commissioner Tsao expressed the hope that American tariff laws can be amended to encourage exports of uncut U.S. fabrics. He said he believes that it is in Hong Kong's interest to import U.S. fabrics to help alleviate political pressure for even more restrictive quotas than already exist on Hong Kong textile exports to the U.S.

Commissioner Tsao said that Hong Kong does not grow mushrooms, but processes canned mushrooms grown primarily in Taiwan and China. Hong Kong also re-exports a large quantity of fresh, dehydrated, and preserved mushrooms. U.S. imports of canned mushrooms have been steadily increasing both in value and quantity. Hong Kong has risen from a minimal supplier in 1974 (only 0.5 percent of the market) to the second largest supplier in 1980 (accounting for 16.7 percent of the market). Taiwan has remained the principal supplier but its share of the market has been decreasing. In terms of value, Hong Kong's exports of canned mushrooms represent only 0.4 percent of Hong Kong's exports to the U.S.

As a result of a petition submitted by the American Mushroom Institute in March, 1980 and a subsequent investigation by the U.S. International Trade Commission, President Carter decided in October, 1980 to increase tariffs on imports of canned and other preserved mushrooms for three years. In addition to the tariff increase, the President created a White House task force to work with the American Mushroom Institute and other industry representatives to provide appropriate technical and financial assistance for the U.S. industry. According to Hong Kong trade statistics, the increased tariff has had a minimal effect on Hong Kong's mushroom exports to the U.S.

Commissioner Tsao said that Hong Kong's leather exports are made up of footwear, belts, gloves, handbags, and suitcases, among other items. Approximately 19,000 from a total workforce of 1 million are employed in the leather goods industry in Hong Kong. Hong Kong exports about 35 percent of its domestic leather products to the United States. Hong Kong's exports of leather footwear to the United States have increased considerably. During the period from January through October, 1981, Hong Kong's exports of footwear doubled. Other leather products exports, with the exceptions of gloves and leather trunks, have also increased.

During the delegation's stay in Hong Kong, Senator Specter took the opportunity to tour the Murjani Garment Factory in downtown Kowloon. Senator Specter's host was Mr. Robert M. K. Yau, the Executive Director of the firm. Established in 1956, the factory is located in a multi-storied building and employs about 1,300 people. The factory has bought the Gloria Vanderbilt label and produces

high-quality fashion jeans and pants for market in the United States, Europe and worldwide.

Senator Specter expressed particular interest in the wage scales and benefits to workers. Salaries are based on piecework and the average worker earns approximately HK\$50 to HK\$60 per day and works an eight-hour day, six days per week. That averages about U.S.\$54 per week. More skilled workers or those who work overtime receive higher pay. Each worker is given 14 days paid leave in addition to national holidays. Pregnant women are eligible for 10 weeks paid maternity leave.

The factory purchases its raw materials, mainly denim, from Japan because, according to Mr. Yau, the Japanese produce a high quality, price-competitive fabric.

JAPAN

The delegation arrived in Japan on January 17. At the delegation's request, the U.S. Embassy scheduled meetings with Mr. Toru Hara, the Vice Minister of Defense and Mr. Kichiro Tazawa, the Minister of Agriculture, Forestry and Fisheries. Senators Cochran and Symms were invited to attend a luncheon sponsored by the American Soybean Association after which they met with representatives of U.S. Cooperators. Senator Symms met with Mr. Yasuo Gogo, the Director General of the Forestry Agency. Senator Specter met with Mr. Kenjiro Ogata, the Director of the Iron and Steel Administration Divisions of the Ministry of International Trade & Industry (MITI). Senator Specter was also invited to attend a luncheon sponsored by a number of Japanese steel industry executives and later toured the Nippon Kokan K. K. steel plant outside Tokyo. Delegation members stressed the importance of the United States-Japan relationship in all the meetings and expressed confidence that, as friends and allies, the United States and Japan can resolve their differences through mutual cooperation.

The U.S. Embassy country briefing was headed by William Clark, who was acting as Chargé d'Affaires during Ambassador Mansfield's visit to Washington, D.C. Others attending the briefing included Lieutenant General Charles Donnelly, Economic Minister Bill Barraclough, Political Counselor Bob Immerman, Agricultural Counselor Bill Davis, Defense Attaché Walter Nix, and Agricultural Officer Suzanne Hale.

The delegation had a strong interest in pursuing questions with Japanese officials about commercial aspects of the United States-Japan relationship. Delegation members had noted with concern the U.S. trade deficit with Japan of approximately \$18 billion in 1981 and perhaps over \$20 billion projected for 1982. Members pointed out that friction has developed over allegations of Japanese protectionism and rapid incursions into U.S. markets by Japanese exports.

Trade problems with Japan have served as a catalyst in the United States for renewed protectionist pressure. Delegation members pointed out that many U.S. workers view unemployment in their industry as being caused by competition from Japan. Some U.S. manufacturers feel resentful that Japanese exporters can gain easy access to the relatively open U.S. market, while their at-

tempts to sell in Japan are often hindered by government restrictions or procedures. Delegation members pointed out that these perceptions are causing an erosion of public support for open trade with both Japan and the rest of the world.

In the Embassy briefing, Chargé Clark said that the Japanese Prime Minister has made trade his top priority. He said that trade friction is not focused on any major sectoral issue as it has been in the past. U.S. policymakers are taking a broad non-sectoral approach with the Japanese, making the point that Japan is now a mature economic power with the obligations which accompany that status. Following World War II, Japan took a number of economic measures to protect her industries while they were being built. Protectionist measures were considered necessary if Japan was to develop into an economically strong nation.

But now the image of a "vulnerable Japan" is outdated. Japan's economic miracle has largely been possible because of the open international trading system, and Japan must now participate fully in that system and work to strengthen it.

Chargé Clark cited a speech Ambassador Mansfield gave in Tokyo on January 6 in which the Ambassador gave some examples of the kinds of disparities in market share that exist between the United States and Japan. Goods imported from Japan had the following share of the total U.S. market:

[In percent]

Autos	20
Steel	10-15
TV's	20-30
Motorcycles	90
Radios	50-60
Cameras	30 +
Recording equipment	50 +
Watches	50 +
Machine tools	20

Aside from airplanes, there are no manufactured goods imported from the United States which enjoy as much as a 10 percent market share in Japan. Some in Japan express concern about the level of U.S. petrochemical exports to Japan but the U.S. share is only 4.5 percent. Some Japanese are also concerned that imports of steel into Japan have begun to reach a market share of 2 to 3 percent. The disparities must be addressed if frictions are to be reduced.

Chargé Clark cited some actions that have already been taken by the Japanese to respond to U.S. concerns. Japan has advanced by two years tariff reductions negotiated in the multilateral tariff negotiations. The Prime Minister has also appointed a special party council to find solutions to the trade problems. The government has also taken steps to stimulate the domestic economy.

The Prime Minister announced soon after our visit specific changes in rules and practices that are designed to make it easier to sell in the Japanese market. It is hoped that these initiatives will result in a more favorable trade balance.

Delegation members requested an analysis of Japan's recently announced increase in its defense budget. Embassy officials responded that the 7.75 percent increase over fiscal year 1981 repre-

sents a 4 percent to 4.5 percent increase in real terms. The defense budget will total \$11.8 billion, approximately 0.933 percent of estimated GNP. Chargé Clark pointed out that increases in general expenditures have been held to an average of 1.8 percent with defense being the major exception to a general hold-the-line budget. The Japanese have increased their contribution to the costs of maintaining U.S. facilities in Japan by about 25 percent. The defense budget provides for acquisition of major equipment such as 23 F-15's, 7 P-3C's, 3 destroyers, 34 type-75 155MM self-propelled howitzers, and 13 203MM self-propelled howitzers. U.S. military officers made the point that Japan will have to increase spending much more rapidly in later years if the government intends to achieve the equipment levels called for in Japan's defense planning.

Delegation members asked about Japanese public opinion on defense issues. In response, Embassy officials said that the Japanese do not view the Soviet threat in the same way as Americans do. The Japanese do not feel directly threatened by the Soviet Union, although the Soviet military build-up in the Pacific is a concern to them. But Japanese public opinion is becoming increasingly more sophisticated about the defense issue. About ten years ago, discussion of defense was taboo whereas now it is being fully debated in the press with some greater appreciation of Japan's own self-defense needs in evidence.

The U.S. approach on this issue has been to decrease emphasis on numbers and percentages. Rather, the U.S. has been urging Japan to accept specific roles and missions related to Japan's acceptance of responsibility for the defense of the sealanes within 1,000 miles of its borders. If Japan can fulfill this mission effectively, it would relieve the U.S. of a significant burden, according to the Embassy briefers.

AGRICULTURAL TRADE

Japan is the largest single-country market for U.S. farm products. Annually Japan imports 15 percent of total U.S. agriculture exports with a value of \$6 to \$7 billion. Japan is the leading U.S. market for beef and soybeans and the second largest for wheat. Poultry and other consumer-ready goods have been increasing with more favorable exchange rates, quota increases and tariff cuts.

The Japanese government has embarked on a program to encourage farmers to reduce rice acreage in favor of other crops such as wheat. When this issue came up during discussion with Mr. Ki-chiro Tazawa, Minister of Agriculture, Forestry and Fisheries, he argued that the policy was proper because of Japan's problem with surplus rice but that it was resulting in lower income for Japanese families.

Access to the Japanese market remains an issue although progress is being made to reduce restrictions. The delegation pointed out to Minister Tazawa that farm income in the United States is depressed and that continued pressure would be put on Congress and the Administration to seek reciprocity unless Japan's trade restrictions are reduced. The delegation expressed appreciation for the Japanese initiative to speed up the Tokyo Round of tariff cuts

and said that this should be considered a first step in the right direction.

Japanese officials were urged to continue efforts to implement changes which allow U.S. products freer access to the Japanese market so the United States can begin to reduce the \$20 billion trade deficit it may soon have with Japan. Specifically, the delegation said that the continuation of quotas to limit pork imports, and import standards particularly for plywood continue to be a concern among U.S. exporters.

The delegation argued for the elimination of Japanese beef quotas. The Japanese public enjoys prime beef cuts and would significantly expand consumption if the supply became available. The United States is in the best competitive position to supply such cuts because of our ability to utilize the remainder of the carcass.

The delegation met with the Agricultural Counselor, Mr. William L. Davis and representatives from the wheat associates, Meat Export federation, American Soybean Association and the Poultry and Egg Institute. These groups are cooperators with the Foreign Agriculture Service in helping to develop markets in Japan.

The group reinforced the delegation's view that the Japanese market is important but that there is a significant growth potential for U.S. agricultural products if Japan is successful in reducing trade barriers.

The delegation again probed the adequacy of assistance being provided by USDA in their efforts to promote exports of U.S. agricultural products. It was found that the partnership between the cooperators and USDA is good but that the budget proposals for fiscal year 1983 need to be carefully reviewed to assure continued support for these very useful efforts.

Senator Symms met with Mr. Yasuo Goto, Director General of the Forestry Administration Department for the Ministry of Agriculture, Forestry and Fisheries to further emphasize the desire that Japan remove the restrictive plywood standards that hamper U.S. exports. Senator Symms explained that U.S. firms are particularly interested in expanding exports because of the slowdown in the U.S. housing industry. He emphasized that the Pacific Northwest has a good supply of soft white wood and could be a reliable supplier. Mr. Goto responded that Japan is trying to resolve the standards issue and that accelerated tariff cuts will be implemented in 1982 as part of Prime Minister Suzuki's program to reduce trade friction with the United States and Europe. Senator Symms expressed the strong desire that restrictive measures be reduced and eventually eliminated.

Senator Specter was invited to a working lunch by a group of top-level Japanese steel executives. Among those included were Mr. Akio Toyoda, Managing Director of Nippon Steel Corporation; Mr. Kazuyo Kinoshita, Managing Director of the Sumitomo Metal Industries; and Mr. Sosuke Doi, General Manager of the Export Department of Nippon Kokan, K. K.; Mr. Toshio Ishida, General Manager of the Export Department of Kawasaki Steel Corporation; and Mr. Ken Matsumoto, the Deputy General Manager of Export Department A, Nippon Steel Department. After lunch, Senator Specter was taken on a tour of Nippon Kokan K. K. outside Tokyo by Mr. Doi.

Senator Specter was interested in discussing wages and labor problems in the Japanese steel industry. The executives said that steel workers earn on average about \$2,000 per month and work 38.1 hours per week. There are labor unions, but the industry has not suffered any long-lasting strikes in ten years.

Senator Specter raised with the group the position of Thomas Graham, President of J and L Steel Corporation of Pittsburgh. Mr. Graham believes strongly that quotas should be imposed on Japanese steel exports to the U.S. He had made his position clear both in Congressional testimony and in a personal conversation with Senator Specter when he visited the J and L Aliquippa plant where several hundred people had recently lost their jobs.

In response, the Japanese executives argued in favor of diplomatic and political solutions to problems in international steel trade. They said they sympathized with the American steel industry's problems with European imports which were apparently coming into the United States under the trigger price. The Japanese executives said that Japan had tried to abide by the trigger price mechanism and that Japan had no intention of taking advantage of the confusion caused by the European exports, nor did Japan intend to take advantage of any gaps in the market that might occur if restraints were placed on European steel. If the Europeans restricted exports and the same request were made of Japan, the Japanese would try to cooperate only if there were an official government-to-government request from the U.S. Government. Otherwise, they were concerned that the Japanese steel industry could be subject to U.S. antitrust laws and might be liable to prosecution. Senator Specter said that he would look into the situation and would consider introducing legislation providing an exemption for liability under federal or state antitrust laws in such cases.

DEFENSE

The delegation was received by Mr. Toru Hara, the Vice Minister of Defense. Discussion focussed on Japanese defense efforts, the Soviet threat and Japanese relations with the Republic of Korea.

In response to a question about the Soviet threat to Japan, the Vice Minister responded that the Japanese do not see an immediate threat to Japan. But the increase in Soviet military strength in the region is disturbing. Japan cannot remain as it has in the past as it sees Soviet moves into Afghanistan and the potential for movement against Poland. He said the early completion of Japan's self-defense plan has the highest priority.

The Vice Minister cited as one example of Soviet intransigence its continued occupation since the war of the northern Japanese islands. Japan has persistently pursued the return of the islands through diplomatic channels.

In response to a question, the Vice Minister said that relations with the Republic of Korea were good. He said that the Japanese constitution did not allow Japan to assist Korea militarily, but that an increase in assistance in the economic field was being negotiated between the two nations. The Korean government had asked for \$6 billion in economic assistance over a period of a number of years

and the two governments were trying to reach a compromise on the aid package.

Delegation members questioned whether the Vice Minister was aware of any sensitivities in other areas of the Pacific as a result of Japanese activities during World War II. He said that approximately thirty years have passed. China and Japan have very good relations. There is some concern mentioned in the Southeast Asian press that Japan might become a military power once again, but the Vice Minister did not believe that this concern was shared by the governments in power in that region of the world.

